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Board of Directors Seventeenth Annual Study Billion Dollar Corporations 1990

KORN/FERRY INTERNATIONAL

Korn/Ferry International's
Board of Directors Seventeenth Annual Study

A Survey of Major U.S. Corporations With Revenues in Excess of $1 Billion

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KORN/FERRY INTERNATIONAL
SEVENTEENTH ANNUAL BOARD OF DIRECTORS STUDY
OF BILLION DOLLAR CORPORATIONS

Introduction

Of the 426 corporations which responded to Korn/Ferry International's Seventeenth Annual Board of Directors Study, 148 reported revenues in excess of $1 billion. Like their counterparts at smaller companies, the CEOs of these corporations are overwhelmingly satisfied with the performance of their directors, and feel that a strong board gives their companies a significant strategic advantage. Chief executives, whatever the size of their company, particularly value the board's contributions in the areas of maximizing shareholder value, strategic planning, long-term corporate survival and management succession.

As in the past, however, billion dollar corporations are also setting trends for their smaller counterparts, particularly in the areas of succession planning, director compensation and concern over international competition. The growing awareness of these issues shown by large corporations indicates that they will soon be significant concerns for smaller companies as well.

The most significant trends:

- **Billion dollar corporations are generally more sensitive to global business issues.**
  - Billion dollar CEOs are particularly optimistic about the creation of new markets as a result of the EEC Unification of 1992.
  - At the same time, these chief executives are more concerned than their counterparts at smaller companies about the competition that will be created by new global markets, and they are more likely to expect that their need for executives based outside the U.S. will increase as a result of 1992.
  - Billion dollar companies are particularly anxious to add directors with international experience to their boards and are more likely than smaller corporations to have international advisory boards.
- **Larger companies are particularly concerned with executive succession planning.**
  - While only 70 percent of all respondents have developed such plans, this percentage rises to 79 percent for billion dollar companies and to 88 percent for $5 billion-and-over corporations.

- More than three-quarters of billion dollar companies have already picked two or three executives from whom the next CEO will be chosen.

- When billion dollar CEOs rank board functions, management succession is second only to maximizing shareholder value. Five years ago, only 27 percent of CEOs ranked management succession among the top three issues. This shift suggests that today's CEOs know how essential choosing future managers is to the future of the company.

- **Billion dollar corporations offer their directors greater compensation and benefits.**

  - As in the past, billion dollar companies lead in the amount they pay their directors. This year, billion dollar firms reported total average annual director compensation, including committee fees, of $34,812, versus $29,863 for all responding companies. Five billion dollar-and-over firms paid their outside directors an average of $40,625.

  - The largest corporations are the most likely to offer their directors pension and retirement benefits and to allow directors to defer board fees until retirement.

  - Compared to smaller companies, a greater percentage of billion dollar corporations compensate directors for meetings held via teleconference or video-conference calls, and nearly all $5 billion-and-over firms do so.

  - Billion dollar companies also lead in offering matching educational gift programs, life insurance, and reimbursement of travel expenses both for directors and spouses.

- **Large corporations are at the forefront of greater representation of women directors.**

  - Sixty-one percent of the boards of billion dollar companies include at least one woman director. At the $5 billion-and-over level, 77 percent of responding companies have women directors.

These developments indicate the directions likely to be taken by all boards over the next decade. In an increasingly complex, competitive global marketplace, boards will need to pay close attention to international events and will need to recruit directors with multinational experience and outlooks. The greater experience and responsibility demanded of directors will command correspondingly greater compensation and benefits. With their combination of objectivity, business expertise and familiarity with the specific company, boards will play an ever greater role in designing executive succession plans. And boards, like other top management functions, will increasingly include women and minorities who have been traditionally underrepresented in corporate affairs.

A Board Agenda for the 1990s

While the four trends already discussed are particularly pronounced at billion dollar companies, Korn/Ferry's Seventeenth Annual Board of Directors Study also identifies eight other key developments in corporate governance. These shifts, which will shape board agendas in the 1990s, are evident at all the corporations we surveyed and particularly at billion dollar companies.

Trend One. Corporate survival has become a primary goal of the board. In a question asked for the first time this year, we sought CEOs' opinions about their board's responsibilities in "ensuring long-term corporate survival." Corporate survival is considered important or extremely important by 87 percent of billion dollar companies, reflecting the critical nature of the issues facing U.S. companies in an increasingly global economy.

Trend Two. Directors increasingly will be expected to own a stake in the companies they serve. Ninety-three percent of billion dollar CEOs, and 98 percent of respondents from $5 billion-and-over companies, said directors should own company stock. Chief executives overwhelmingly believe that stock options help to align directors' interests with those of other shareholders.

Trend Three. The number of insiders on boards will continue to drop. Increasingly, the CEO and COO will be the only insiders on the board. Ten years ago, we predicted that outside directors would become a major force in corporate governance. Clearly, that is the case today. Today's boards, at both large companies and their smaller counterparts, are composed of an average of 10 outside directors and three directors from inside the company, compared with five insiders and eight outside directors in 1975.

Trend Four. Boards will increasingly protect the interests of nonshareholder constituents such as employees, communities and environmental groups. A third of the states already have enacted laws that require directors to consider such stakeholders. While CEOs still overwhelmingly consider shareholders their primary constituency, outside directors have become much more sensitive to the needs of other groups.

Trend Five. Directors will not be automatically reelected. One-third of CEOs believe that outside directors should be formally evaluated, and 96 percent favor asking for the resignation of directors who do not measure up to their standards. Over the next decade, as major shareholders take a more active role in corporate governance, proxy contests will also result in higher director turnover, especially at larger corporations. And more boards will seat directors among large investors, who are already seeking representation to safeguard their substantial investments.

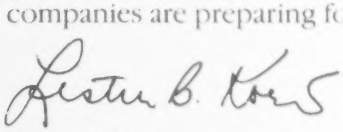
Trend Six. Directors will serve on fewer boards. In the past, directors have been faulted for sitting on too many boards to render significant service to a company. The CEOs surveyed, however, appear to take board memberships seriously. There was almost unanimous agreement that CEOs should limit their directorships to three boards. Sixty-two percent of billion dollar CEOs, and 70 percent of chief executives of $5 billion-and-over companies, have declined an invitation to sit on a board during the past year.

Trend Seven. Future boards will be smaller and more flexible with directors having greater interaction as they work together as a team. In the future, corporate directors will work more closely together to assert leadership in corporate affairs. The increased use of meetings held via teleconferencing and video-conferencing calls will give board members greater contact with one another. We believe that today's directors are able to do a better job in less time through more efficient use of committees, as well as more frequent contact with the CEO. A majority of CEOs report that they consult with directors either "frequently" or "regularly" between meetings, most often about acquisitions and financial issues.

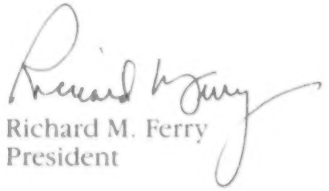
Finding qualified directors—particularly with business leaders limiting the number of boards they sit on—will be more difficult in the future. This phenomenon will encourage companies to maintain smaller and more manageable boards.

Trend Eight. An increasing number of directors will come from the ranks of retired CEOs. Directors of billion dollar companies continue to be drawn primarily from two sources: chief executive and chief operating officers of other companies (85 percent) and retired executives (67 percent). Given the pressures of these posts, retired executives will be an important source of qualified board members in the future, particularly as the U.S. population ages. The talent available in the pool of retired executives will rise dramatically in coming years.

In the 17 years that we have been conducting our annual study, the business world has undergone a number of shifts and transformations. Boards of directors have evolved accordingly, and billion dollar companies have been at the forefront of change. We hope that the following summary of findings will give billion dollar companies a sense of how they compare with their peers, while offering smaller corporations insights into how America's largest and most successful companies are preparing for the future.



Lester B. Korn
Chairman



Richard M. Ferry
President

September 1990

SUMMARY OF FINDINGS

On a question-by-question basis, the following findings relate directly to billion dollar industrial and service corporations (Table 1). When appropriate, comparisons have been made between this group and all participants in our study.*

Size of Board (Table 2)

Billion dollar company boards continue to seat an average of 13 directors, the same as last year but one less than the 14 reported five years ago. The average for the largest companies, $5 billion and over, is 14 members, the same as reported in 1988. All respondents report seating an average of 13 directors. With an average of 18 directors, banks and other financial institutions continue to maintain the largest boards.

When asked to conjecture on the size of the board in five years, 64 percent of the billion dollar firms said they believe the number of board members will remain the same, 27 percent felt it would increase and nine percent foresaw a decrease.

Inside Directors vs. Outside Directors (Table 2)

This year, billion dollar corporations have an average of three inside directors, the same as last year and one less than the four reported in 1985. They seat 10 outside directors, the same as last year. These averages are the same as those reported by all boards in the study.

Is the Chairman also the CEO? Is the CEO also the COO? (Table 3)

This year, 81 percent of the billion dollar companies (and 94 percent of the $5 billion-and-over industrial and service firms) report that their chairman also serves as chief executive officer. Although down from 88 percent last year and 83 percent in 1985, the overall billion dollar figure is higher than the average of 79 percent reported by all participants.

Only 38 percent of the billion dollar respondents have a chief executive officer who also serves as chief operating officer, up from 34 percent five years ago. Likewise, 38 percent of the overall respondents report this dual relationship. Seventy-nine percent of the billion dollar-plus chief executive officers see no advantage to separating the chairman and CEO function.

Board Composition (Table 4)

Outside directors of billion dollar companies originate primarily from the following sources: chief executives and chief operating officers of other companies (reported by 85 percent, compared with 80 percent overall), retired executives of other companies (67 percent, compared

**This year, 426 corporations responded to our Annual Study. Of the 73 percent that are industrial and service corporations, 148 companies have revenues in excess of $1 billion. Banks and other financial institutions account for 14 percent, insurance companies for 10 percent and retailers for three percent.*

with 64 percent overall) and academicians (63 percent, compared with 55 percent overall). These categories of directors are even more common on the boards of the $5 billion-and-over companies, 87 percent of which seat a CEO/COO of another company, 81 percent of which include an academician and 73 percent of which report a retired executive.

Larger companies are more likely to seat former government officials on their boards: 38 percent of the billion dollar companies do so, compared with 28 percent of all respondents and only 16 percent of the smaller industrials. The figure rises to 50 percent for $5 billion-and-over companies. Twenty-seven percent of billion dollar boards now seat at least one "professional" director, the same as the overall respondents and down from 32 percent five years ago.

Women continue to be a growing source of outside directors for billion dollar corporations. This year, 61 percent seat at least one woman on their boards, up from 59 percent last year and the 51 percent reported in 1985. Among all companies surveyed, 59 percent seat a female director. In the largest industrial and service firms, the $5 billion-and-over companies, 77 percent have women directors, up from 71 percent last year and 63 percent five years ago.

Ethnic minority membership dipped slightly to 35 percent from 36 percent in 1988, but it was up from the 31 percent reported five years ago (Table 4A). Academicians are the most popular source of women directors, followed by former government officials and senior executives of other companies. Ethnic minority directors are most often drawn from the ranks of academicians and CEOs/COOs of other companies (Table 4B).

Seventy-three percent of the billion dollar respondents, and 84 percent of the $5 billion-plus industrial and service firms, feel a director with international experience would be an asset to the board. Similar to all respondents, billion dollar companies cited Europe as the area in which expertise would be most valued, followed by Canada (Table 4C).

Nine percent of all billion dollar industrial and service firms, and 21 percent of the $5 billion and over companies, currently have an international advisory board.

Eighty-five percent of the billion dollar companies are satisfied with the present composition of their board (Table 4D). Of those who are not satisfied, respondents indicated they would like their board members to have additional experience in finance and in their specific industry.

Committees (Table 5)

The most frequently reported committees among the billion dollar companies continue to be the audit (97 percent), compensation/benefits (94 percent) and executive (78 percent) committees. Respondents also ranked these committees most important.

Sixty-two percent of the billion dollar companies use a nominating committee. This percentage continues to drop, down from 68 percent last year and 70 percent five years ago (Table 5A). However, the figure rises to 77 percent for the $5 billion-and-over corporations. Overall, 57 percent of the respondents reported use of a nominating committee.

Forty-one percent of billion dollar corporations report a finance committee, a decrease from 46 percent in 1988 and 51 percent in 1985. However, 52 percent of the $5 billion-plus industrial and service firms report using a finance committee.

Most committees at billion dollar companies have an average of five or six directors. Only the finance committee reports a high of seven members. The audit, executive, nominating and corporate ethics committees have all increased their number of outside directors from five years ago.

Only the audit committee is composed entirely of outside directors. The compensation/benefits committee, which formerly included no inside directors, now seats one (Table 5B).

The average number of committee meetings held at billion dollar companies ranged from a low of two meetings for the nominating committee to a high of seven for the executive committee, up from four meetings in 1985 (Table 5C). These figures were the same as those reported by all companies.

In 60 percent of the billion dollar companies, the chairman of the board also acts as the chairman of a committee. Eighty-eight percent of these board chairmen also chair the executive committee.

Compensation (Table 6)

Ninety-one percent of the billion dollar respondents compensate outside directors on an annual fee plus per-meeting fee basis. Six percent compensate directors with an annual fee only. Three percent pay only a per-meeting fee.

Annual Plus Per-Meeting Fee (91 percent of the respondents)

At the billion dollar companies that pay an annual fee plus a per-meeting fee, outside directors earned an average of $27,862, an increase of five percent over last year's average amount and 18 percent more than the $23,601 reported in 1985. Furthermore, this figure is 13 percent higher than the $24,729 averaged by all respondents. The $27,862 compensation comprises an average annual fee of $20,829 and an average per-meeting fee of $1,038.

Director fees at the $5 billion-and-over industrial and service companies grew at a slower pace. Here, compensation averages $31,554, compared with $31,028 last year.

The upper quartile compensation for billion dollar companies averaged

$37,935. This is seven percent more than the $35,426 upper quartile average reported for all respondents.

Annual Fee Only (Six percent of the respondents)

At billion dollar corporations that pay only an annual fee, outside directors earned an average of $37,167, up 20 percent from the average $31,056 reported last year and 70 percent above the average fee reported five years ago. Among all respondents, the annual fee averaged $24,900. For $5 billion-and-over industrial and service companies, average annual fees rose to $42,500, compared with the 1988 average of $39,313.

Committee Compensation

Eighty-nine percent of the billion dollar respondents, and 98 percent of the $5 billion-and-over corporations, pay their directors an additional fee for serving on committees. Additionally, 61 percent of all billion dollar companies, and 71 percent of the $5 billion-and-over firms, pay an extra stipend for chairing a committee. As expected, meeting fees for all committees at billion dollar corporations were higher than the reported overall averages. Fifty-two percent of the billion dollar firms also compensate their directors for serving on special ad hoc committees, compared with 59 percent of the overall respondents.

Total Annual Compensation (Table 7)

The average total compensation paid to outside directors of billion dollar companies, including committee fees, was reported at $34,812, up from $32,771 last year and substantially more than the average of $29,863 for all respondents. Directors of the $5 billion-and-over industrial and service corporations earned an average of $40,625, up only slightly from last year.

The upper quartile average for the billion dollar industrial and service firms was $50,861 (up from $47,079 last year). This figure rose to $54,924 for the $5 billion-and-over industrial and service companies.

Additional Compensation Information (Table 8)

The highest paid outside directors of billion dollar corporations earned an average total compensation of $39,869 for all board service activities, exclusive of any consulting arrangements. This represents a three percent increase over last year's average and a 20 percent increase over the average reported five years ago. Compensation averaged $63,835 for upper quartile respondents at all billion dollar companies and $77,097 for the $5 billion-and-over industrial and service firms (Table 8A).

Eighty-one percent of the billion dollar industrial and service firms, and 92 percent of the $5 billion-and-over companies, compensate their outside directors for meetings held via teleconference calls, up from 61 percent and 72 percent, respectively, last year. The average compensation for each was $845 and $907 per call, respectively.

During the past year, 42 percent of the billion dollar companies increased compensation for outside directors, the same percentage that did so in 1988. This percentage is considerably higher than the 20 percent that predicted such a fee increase last year. Billion dollar companies reported an average increase of $3,648 in the annual retainer, compared with $3,190 for all respondents. Directors received a per-meeting fee increase of $204, compared with $251 for all study respondents. Last year, total compensation for the billion dollar outside director rose by an average of $4,129; five years ago, the total average increase was $2,956. Ninety-one percent of the billion dollar companies, the same percentage as last year, expressed a conviction that, in general, their outside directors are adequately compensated.

Benefits

Benefits for outside directors continue to gain in popularity. Compensation plans at 74 percent of the billion dollar companies, and 87 percent of the $5 billion-and-over corporations, permit outside directors to defer fees until retirement, up from 72 percent and 82 percent, respectively, last year. Fifty-four percent of all billion dollar respondents now provide a pension/retirement income plan, well above the 37 percent who offered such plans five years ago. Twenty-two percent of all billion dollar corporations provide stock options for their outside directors, a considerable increase from the 10 percent who did so in 1987 when the question was first asked. However, 53 percent of chief executive officers are in favor of extending such options to their outside directors. Of those in favor of granting stock options, 87 percent believe they help to align directors' interests with those of stockholders.

Other benefits commonly offered are directors' liability insurance (98 percent), travel expense reimbursement (92 percent), matching educational gift programs (62 percent) and accident insurance (46 percent) (Table 8B).

Stock Ownership

Ninety-three percent of the participating billion dollar firms believe that all directors should own some company stock, up from 89 percent last year. The average minimum number of shares indicated was 605.

Eighty-seven percent of the billion dollar respondents report that their outside directors do, in fact, own stock in the companies they serve. And in 78 percent of the cases, all directors own stock.

Liability Insurance

Ninety-eight percent of the billion dollar industrial and service firms, and all of the $5 billion-plus companies, currently have directors' liability insurance. Of those with policies up for renewal in 1989, 18 percent reported an increase in directors' liability insurance premiums, a considerable decrease from the 30 percent who experienced increases last year and the 66 percent reporting them in 1985. Furthermore, the average increase was 116 percent, a significant drop from 144 percent in

1988 and 336 percent five years ago. For all responding companies, the average increase was 41 percent.

Eight percent of the billion dollar company boards (down from 12 percent last year) have opted for self-insurance. Eighty-nine percent of billion dollar boards have passed a measure to limit liability, up from 84 percent in 1988.

Board Practices and Policies (Table 9)

Billion dollar corporate boards meet an average of eight times per year, the same average number reported both last year and five years ago. Five billion dollar-and-over firms also averaged eight meetings, down from a high of 11 meetings last year. As was the case for all respondents, the chairman generally determined the agenda for board meetings (95 percent).

A director on a billion dollar company board spends an average of 104 hours per year on board-related business, including time for meeting attendance and preparation. This figure is only a slight decrease from last year's average of 108 hours. Five years ago, the average was 126 hours. Among all responding companies, directors spent an average of 94 hours on board activities. The upper quartile average for the billion dollar companies is 166 hours, down from 170 hours in 1988 (Table 9).

The chairmen of billion dollar corporations reported devoting an average of 164 hours to board duties, compared with 169 hours last year.

Directors of these larger industrial and service companies earn $268 per hour if compensated on an annual plus per-meeting fee basis, up from both last year's $246 and the $187 hourly rate reported five years ago.

With committee fees taken into account, the average hourly rate for outside directors of billion dollar companies is $335, up substantially from the $303 reported in 1988. For directors at the $5 billion-and-over firms, the average rose to $356 per hour.

Fifty-one percent of the billion dollar CEOs (and 55 percent of the $5 billion-plus CEOs) occasionally confer with their directors outside board meetings. Thirty-two percent frequently confer with directors between meetings, while 17 percent do so on a regular basis. As for all respondents, topics include acquisitions and financial issues (discussed by 56 percent of the billion dollar-plus CEOs), followed by changes in senior management (50 percent).

Locating Outside Directors (Table 10)

Eighteen percent of the billion dollar corporations reported that at least one outside director resigned from the board in 1989, up from 16 percent last year but a considerable decrease from the 30 percent reported in 1985. Twenty-five percent of all study respondents experienced a board resignation in 1989. The major reason was time demands (cited by 29 percent), but directors' liability coverage was also

a factor (20 percent). Sixty-five percent of the billion dollar CEOs, and 72 percent of the CEOs at $5 billion-plus firms, intend to replace all the directors who retired or resigned in 1989. In 1988, 72 percent of the responding billion dollar CEOs planned to fill open board seats.

Forty-two percent of the billion dollar companies, and 51 percent of the $5 billion-and-over firms, expect a board vacancy in the coming year, a dip from the 48 percent and the 58 percent, respectively, reported last year but an increase from the 33 percent for all billion dollar respondents five years ago.

When identifying and selecting new directors, boards of billion dollar corporations continue to rely primarily on the traditional means of recommendations by the chairman (70 percent) and by other board members (68 percent).

The nominating committee is used to identify new directors at 55 percent of billion dollar corporate boards, down from 59 percent last year but the same as reported for respondents overall. This figure rises to 69 percent for the $5 billion-and-over firms, up from 66 percent in 1988. Executive search continues to be popular; 18 percent of the billion dollar companies now use search firms to assist in the selection of directors, up from 15 percent five years ago. (Table 10).

Twenty-nine percent of the billion dollar respondents, and 33 percent of the $5 billion-and-over firms, reported that a prospective director declined an invitation to serve on the board in 1989, about the same percentage as last year but up from 24 percent five years ago. Sixty-nine percent reported one refusal, 24 percent reported two, and seven percent experienced three or more.

Time commitment, cited by 67 percent, was again the major reason given for declining such a seat. At 46 percent of the companies experiencing refusals, sitting on too many boards was the reason given.

The average tenure of billion dollar directors is eight years, down from the 11 years reported last year by billion dollar respondents and compared with nine years for all respondents this year. Twenty-six percent of the billion dollar respondents believe there should be a limit to a director's term of service.

The average age of the CEO of a billion dollar company continued to drop, from 57 in 1988 to 55 this year. The billion dollar boards' outside directors average 54 years of age, while directors at the $5 billion-plus firms average 56 years old.

Board Functions

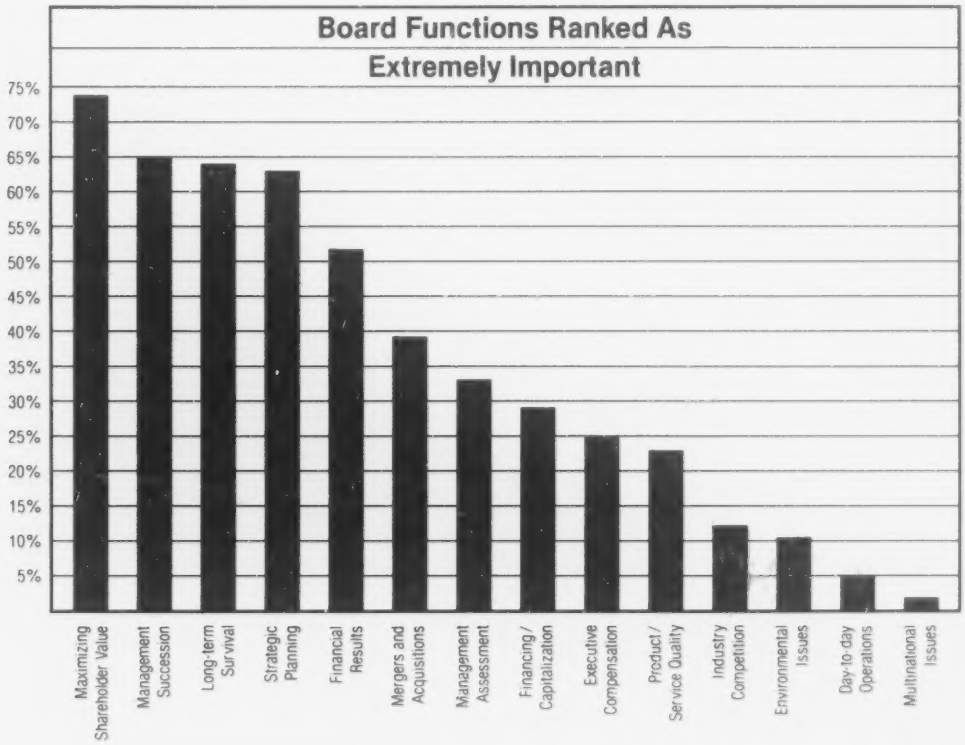
Like their counterparts at all the responding companies, billion dollar CEOs ranked maximizing shareholder value as the most important board function. Seventy-four percent of all billion dollar CEOs, and 78

percent of those at the $5 billion-and-over industrial and service firms, cited this issue as extremely important.

Management succession (65 percent), long-term corporate survival (64 percent) and strategic planning (63 percent) were the next most important issues for billion dollar companies; $5 billion-plus CEOs, however, placed the strategic planning function before both long-term corporate survival and the issue of management succession.

Larger companies are less concerned with financial results and industry competition than their smaller counterparts. Only 50 percent of the billion dollar firms ranked financial results as extremely important, whereas 66 percent of the smallest industrial and service firms did so.

Likewise, billion dollar boards are less involved with day-to-day operations than are boards of smaller firms. Sixty percent of all billion dollar company boards (and 68 percent of the $5 billion-and-over companies) ranked this function of little importance.



Like their counterparts at all companies, CEOs of billion dollar firms ranked management succession above long-term corporate survival and second only to maximizing shareholder value.

TABLE 1—PARTICIPATING COMPANIES

Of those industrial and service companies with sales volumes $1 billion or over, 148 participated in our Seventeenth Annual Study.

Size (Assets)	Number of Companies	%
$1 billion–$2.999 billion	73	49.3%
$3 billion–$4.999 billion	23	15.6%
$5 billion and over	52	35.1%
TOTAL	148	100.0%

Stock Exchange	Number of Companies	%
New York Stock Exchange	125	84.5%
American Stock Exchange	7	4.7%
Over-the-counter	5	3.4%
Other	11	7.4%
TOTAL	148	100.0%

TABLE 2—PRESENT NUMBER OF BOARD MEMBERS

What is the present number of board members?

Size of Company	Average Number Inside Directors	Average Number Outside Directors	Average Number Directors
$1 billion–$2.999 billion	3	9	12
$3 billion–$4.999 billion	4	9	13
$5 billion and over	4	10	14
Average	3	10	13

TABLE 3—CHAIRMAN ALSO CEO, CEO ALSO COO

Is the Chairman of the Board also the Chief Executive Officer?
Is the Chief Executive Officer also the Chief Operating Officer?

	% Chairman/CEO	% CEO/COO
Yes	81.0%	37.6%
No	19.0%	62.4%
TOTAL	100.0%	100.0%

TABLE 4—BOARD COMPOSITION

4A. Are one or more of the following individuals on the board?

	%1985 Companies Over $1 Billion	%1989 Companies Over $1 Billion	%1989 All Companies Surveyed
CEO/COO (other companies)	na	84.5%	79.5%
Retired executive (other companies)	75.3%	66.9%	64.1%
Woman	51.2%	60.8%	59.1%
Academician	67.4%	62.8%	55.4%
Retired corporate officer	51.6%	50.7%	47.0%
Senior executive (other companies)	86.0%*	35.8%	39.5%
Attorney (does not provide legal services for the company)	30.7%	29.1%	33.5%
Ethnic minority member	31.2%	34.6%	31.6%
Former government official	41.9%	37.8%	27.7%
"Professional" director	32.1%	27.0%	27.0%
Attorney (provides legal services for the company)	20.0%	18.9%	25.8%
Major shareholder (not officer of the company)	25.1%	25.0%	24.1%
Investment banker	26.5%	29.7%	22.9%
Commercial banker	34.4%	27.7%	22.7%
Non-U.S. citizen	20.5%	18.9%	12.0%
International executive (U.S. citizen)	10.2%	7.4%	6.7%

FIVE-YEAR TREND

4B. From which of the above functions are most women and ethnic minorities drawn?

Function	% Women	% Minorities
Academicians	31.1%	31.4%
CEOs/COOs (other companies)	14.4%	23.5%
Attorneys (do not provide legal services)	6.7%	13.7%
Former government officials	21.1%	9.8%
Senior executives (other companies)	20.0%	9.8%
Professional directors	16.7%	—

4C. Would a director with international experience be a valuable asset to your board?

	%
Yes	73.1%
No	26.9%
TOTAL	100.0%

**Not comparable. 1985 percentage included CEOs/COOs of other companies. This became a separate category in 1986.*

If yes, from which geographic areas?

	%
Europe	55.5%
Canada	15.5%
Soviet Union	8.8%
Pacific Rim	7.4%
Japan	6.1%
Eastern Europe	5.4%

4D. Are you satisfied with the present composition of your board?

	%
Yes	85.2%
No	14.8%
TOTAL	100.0%

TABLE 5—COMMITTEES

5A. Which of the following standing committees does the board have?

Committee	% 1985 Companies Over $1 Billion	% 1989 Companies Over $1 Billion	% 1989 All Companies Surveyed
Audit	97.2%	96.6%	96.6%
Compensation/Benefits	84.2%	93.9%	91.1%
Executive	79.5%	77.7%	73.5%
Nominating	70.2%	62.2%	57.3%
Finance	51.2%	41.3%	33.5%
Public affairs	14.9%	14.2%	11.3%
Corporate ethics	7.4%	6.1%	7.0%
Science/Technology	4.2%	2.7%	3.1%

FIVE-YEAR TREND

5B. What is the composition of each committee?

Committee	Average Number Inside Directors	Average Number Outside Directors	Average Number Directors
Audit	0	5	5
Compensation/Benefits	1	5	6
Executive	2	4	6
Nominating	1	5	6
Finance	2	5	7
Public affairs	1	5	6
Corporate ethics	1	5	6
Science/Technology	1	4	5

5C. How many committee meetings were held during the past 12 months?

Committee	1985 Average Number of Meetings	1988 Average Number of Meetings	1989 Average Number of Meetings
Audit	3	4	4
Compensation/Benefits	4	5	4
Executive	4	6	7
Nominating	2	2	2
Finance	5	4	5
Public affairs	3	3	3
Corporate ethics	2	2	3

FIVE-YEAR TREND

TABLE 6—COMPENSATION

Annual Plus Per-Meeting Fee (91 percent of the respondents)

Annual Fee Amount	%
Under $5,000	2.3%
$5,000–$6,999	2.3%
$7,000–$10,999	2.3%
$11,000–$13,999	6.1%
$14,000–$16,999	12.2%
$17,000–$19,999	13.0%
$20,000–$24,999	36.6%
$25,000 and over	25.2%
TOTAL	100.0%
Average Annual Fee	$20,829

PLUS

Amount Per Meeting	%
Under $600	6.2%
$600–$699	11.5%
$700–$799	18.5%
$800–$999	10.7%
$1,000–$1,199	35.5%
$1,200 and over	17.6%
TOTAL	100.0%
Average Per-Meeting Fee	$1,038

EQUALS

Total Annual Compensation	%
Under $14,000	2.4%
$14,000–$16,999	3.9%
$17,000–$19,999	9.3%
$20,000–$24,999	17.8%
$25,000–$29,999	27.9%
$30,000 and over	38.7%
TOTAL	100.0%
Average Total Annual Compensation	$27,862

Size of Company	1985 Average Compensation	1989 Average Compensation	1989 Upper Quartile Average
$1 billion–$2.999 billion	$20,890	$24,173	$34,053
$3 billion–$4.999 billion	$24,095	$30,317	$38,502
$5 billion and over	$25,926	$31,554	$40,827
Average	$23,601	$27,862	$37,935

FIVE-YEAR TREND

TABLE 7—COMMITTEE COMPENSATION

What is the average total annual compensation, including committee fees, for outside directors?

Size of Company	Average Compensation	Upper Quartile Average
$1 billion–$2.999 billion	$28,635	$41,290
$3 billion–$4.999 billion	$39,042	$54,678
$5 billion and over	$40,625	$54,924
Average	$34,812	$50,861

TABLE 8—ADDITIONAL COMPENSATION INFORMATION

8A. How much did the highest paid director receive in 1989 for all board services exclusive of any consulting arrangement?

Amount	%
Under $11,000	0.8%
$11,000–$16,999	3.1%
$17,000–$24,999	11.0%
$25,000–$29,999	15.0%
$30,000–$39,999	29.9%
$40,000–$49,999	20.5%
$50,000 and over	19.7%
TOTAL	100.0%
Average	$39,869

Highest Paid Directors

Size of Company	1985 Average Compensation	1989 Average Compensation	1989 Upper Quartile Average
$1 billion–$2.999 billion	$26,337	$32,174	$49,447
$3 billion–$4.999 billion	$32,346	$42,117	$61,178
$5 billion and over	$40,851	$49,312	$77,097
Average	$33,355	$39,869	$63,835

FIVE-YEAR TREND

8B. What benefits are included in the compensation plan for outside directors?

	% 1985	% 1988	% 1989
Directors' liability insurance	96.7%	95.2%	97.9%
Travel expense reimbursement	97.2%	93.6%	91.9%
Deferral of board fees until retirement	75.3%	72.3%	73.6%
Matching educational gifts program	69.3%	64.4%	62.2%
Pension/Retirement income plan	36.7%	52.1%	54.1%
Accident insurance	61.9%	53.7%	45.9%
Travel expenses for spouse	31.2%	33.0%	34.5%
Life insurance	27.4%	21.8%	26.4%
Stock options	n/a	18.6%	22.3%
Medical insurance	10.7%	13.3%	13.5%

FIVE-YEAR TREND

TABLE 9—BOARD PRACTICES AND POLICIES

How many hours (estimated) do directors spend annually on board matters, including review and preparation time, meeting attendance and travel?

Number of Hours	%
Under 40	13.8%
40 to 70	17.9%
71 to 100	26.8%
101 to 130	14.7%
131 to 160	15.4%
161 to 190	4.9%
191 and over	6.5%
TOTAL	100.0%
Average	104 hours

Size of Company	Number of Hours	Upper Quartile Average
$1 billion–$2.999 billion	96	192
$3 billion–$4.999 billion	106	148
$5 billion and over	114	186
Average	104	166

TABLE 10—LOCATING OUTSIDE DIRECTORS

How are outside directors located for the board?

	%1985	%1989
Recommended by chairman	78.1%	69.6%
Recommended by board members	76.2%	68.1%
Nominating committee	78.5%	55.4%
Recommended by other corporate officers	36.4%	26.4%
Executive search	15.4%	17.6%
Referred by executive acquaintances	8.9%	9.1%

FIVE-YEAR TREND

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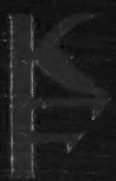

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